SENATE FISCAL OFFICE
ISSUE BRIEF

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Recent Pension Reforms

The Employee Retirement System of Rhode Island (ERSRI) was established under chapter 2334 of the Rhode Island Public Laws of 1936 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for State employees and public school teachers. The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). Elected officials may become members on an optional basis. Membership in the plan is compulsory for teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools.

The ERSRI administers defined benefit pension plans for State employees, teachers, State Police, judges and participating municipal employees. State employees and teachers are combined in one plan while State Police, judges and municipal employees each have separate plans.

Since FY2006, the General Assembly has instituted several reforms to the State Retirement System impacting State employees, teachers, State Police and judges. These reforms have generated an estimated cumulative total General Revenue savings of $84.2 million to the State and $80.6 million to municipalities. Table 1 on the following page summarizes these changes.

2010: FY2011 BUDGET AS ENACTED (ARTICLE 16)

The FY2011 Budget as Enacted modified the Cost-of-Living Adjustment (COLA) for State employees, teachers, and judges who were not eligible to retire as of June 12, 2010. State employees, teachers, and judges who were eligible to retire prior to the enactment of the change are not affected and may continue to work without forfeiture of their current COLA provisions. The changes involved:

- Appling future COLAs on the later of a member's third anniversary of retirement or the month following their 65th birthday; and
- Limiting the COLA application to the first $35,000 of annual retirement income (indexed to inflation).

FY2010 and FY2011 General Revenue pension savings ($ in millions)

State share	FY2010	FY2011
State employees	$3.3	$5.7
Teachers	4.0	4.2
Total	**$7.3**	**$9.9**
Local share		
Teachers	$5.9	$6.1
Total	**$13.2**	**$16.0**

Actuarial studies show that the COLA changes will result in total FY2010 General Revenue savings of $13.2 million, of which $3.3 million relates to State employees and $9.9 million relates to teachers (both the State and local share of the pension contribution). For FY2011, actuarial studies show that the COLA changes will result in total FY2011 General Revenue savings of $16.0 million, of which $5.7 million relates to State employees and $10.3 million relates to teachers (both the State and local share of the pension contribution).

STATE HOUSE ROOM 117
PROVIDENCE, RHODE ISLAND 02903
(401) 222-2480
(401) 222-1390 (F)

Table 1: Summary of recent pension changes

Year	Change	Affects
2010	Modified COLA adjustments to the 1st $35,000, starting on the 3rd anniversary of retirement or at age 65.	State employees, teachers & judges not eligible to retire as of June 12, 2010.
2009	Established retirement age of 62, based pension calculation on 5 years rather than 3 years, froze Plan A service credits earned as of Sept. 30, 2009 then switched them to Plan B credits.	State employees & teachers not eligible to retire as of September 30, 2009, and judges engaged after July 1, 2010.
2008	Increased eligibility to retire from 20 years to 25 years and increased the mandatory retirement from service from 25 years to 30 years. This change eliminated the mandatory retirement age requirement.	State police hired after July 1, 2007.
2008	Judges (reduced pay): retire after 20 years of service at any age, or 10 years of service at age 65 at 70% of the average highest 3 consecutive years of salary. Judges (full pay): retire after 20 years of service at age 65, or 15 years of service at age 70 at 90% of the average highest 3 consecutive years of salary.	Judges of the State Supreme Court, Superior Court, Family Court, and Workers' Compensation Court engaged after January 1, 2009.
2005	Established retirement age of 59 with 29 years of service or age 65 with 10 years of service. Created a Plan B benefit accrual structure and changed COLA to CPI 3% maximum effective 3rd anniversary after retirement.	State employees and teachers not vested as of July 1, 2005.

2009: FY2010 BUDGET AS ENACTED (ARTICLE 7)

The FY2010 Budget as Enacted revised the pension system for State employees and teachers who were not eligible to retire as of September 30, 2009, and to judges engaged by the State after July 1, 2009. The pension changes resulted in State and Local savings of $44.5 million in FY2009 and $52.5 million in FY2010.

FY2009 and FY2010 General Revenue pension savings ($ in millions)

State share	FY2009	FY2010
State employees	($1.5)	$15.0
Teachers	18.5	15.0
Total	**$17.0**	**$30.0**
Local share		
Teachers	$27.5	$22.5
Total	**$44.5**	**$52.5**

The revisions:

- Establish a retirement age of 62 for all employees, with a methodology that proportionally changes the age requirement based on years of service so the closer one is to retirement, the less the impact:
  - Plan A: proportional to 28 years or age 60 with 10 years (retain 80% cap);
  - Plan B: proportional to age 59 and 29 years (retain 75% cap);
  - Corrections and Nurses proportional to age 55 and 25 years.
- Base average final compensation for pension calculation on highest 5 years rather than 3 years.
- Froze service credits earned as of September 30, 2009, but required that all future accruals are earned at the Plan B schedule.
- Purchase credits: Count towards total service time, and do not count towards contributory time, i.e. vesting (current law), but must be purchased at full actuarial cost after June 16, 2009.

- COLA: Plan B at 3.0% or the change in CPI, which ever is lower (remains compounded).
    - Must annually document disability status to Retirement Board;
    - Permanently disabled - continue current benefit of 66 2/3% of salary;
    - Disabled from service - benefit reduced from 66 2/3% to 50% of salary.
- Judges: Salary basis is highest 5 consecutive years and the maximum benefit would be 80% for judges retiring under full pay and 65% under reduced pay. Applies only to judges engaged after July 1, 2009.

2008: FY2009 BUDGET AS ENACTED – STATE POLICE (ARTICLE 22)

The FY2009 Budget as Enacted established that a member of the State Police is eligible to retire after 25 years of service with a retirement benefit equal to 65% of "whole salary." Whole salary is defined as the member's final base salary, longevity, holiday pay, clothing allowance and up to 400 hours OT. The Assembly increased the years of service for mandatory retirement for those hired after July 1, 2007, from 25 to 30 years of service, and eliminated the mandatory age requirement of 62. A member of the State Police hired after July 1, 2007, receives no additional service credit beyond 20 years of service. The maximum retirement benefit remains at 65% of "whole salary."

2008: FY2009 BUDGET AS ENACTED – JUDGES (ARTICLE 35)

Passage of the FY2009 Budget as Enacted changed the retirement allowances for judges of the State Supreme Court, Superior Court, Family Court, and Workers' Compensation Court who were appointed on or after January 1, 2009. Judges with reduced pay may retire after 20 years of service at any age, or after 10 years of service at age 65 with an allowance set at 70% of the average highest 3 consecutive years of salary. A judge on full pay can retire after 20 years of service at age 65, or after 15 years of service at age 70 with a retirement allowance set at 90% of the average highest 3 consecutive years of salary. In addition, a person who is engaged as a judge on or after January 1, 2009, may establish a surviving spouse allowance after accepting a reduced retirement pay that is 10% less than the average highest 3 consecutive years of salary. The surviving spouse allowance will be equal to 50% of the of the judge's retirement allowance.

2005: FY2006 BUDGET AS ENACTED (ARTICLE 7)

The FY2006 Budget as Enacted impacted new and non-vested State employees and teachers on July 1, 2005. Article 7 modified the eligibility age for retirement, created a Plan B benefit accrual structure and changed the COLA application for new and non-vested State employees and teachers. The change required State employees and teachers be 59 years old with 29 years of service; or 65 years old with 10 years of service; or 55 years old with 20 years of service and the allowance is actuarially reduced for each month that the age of the member is less than 65. The schedule of earnings allowance is spread over 38 years and based on the 3 highest consecutive years of compensation multiplied by service allowance. The maximum allowance is 75%. The budget established the COLA as 3.0% or the change in the Consumer Price Index for all Urban Consumers (CPI-U), whichever is lower, beginning on the third anniversary date of retirement. State employees and teachers vested as of July 1, 2005, were not affected by these changes to the retirement system.

FY2008 SUPPLEMENTAL BUDGET - RETIREE HEALTH CARE CHANGE (ARTICLE 4)

Article 4 of the FY2008 Supplemental Budget made changes to retiree health benefits effective September 30, 2008. Prior to this change, the State provided two tiers of retiree health benefits. The Tier I benefit was the State's share of the retiree health cost that was the difference in health insurance costs for an active State employee and that charged for a retiree. The Tier I benefit ended when the retiree reached age 65. The Tier II benefit was the portion that the State paid on the cost of the retiree health insurance that exceeded the Tier I costs. For employees that retire at age 60 with 20 years of service, or employees at any age with more than 35 years of service, the State paid 100% of the cost. The State's cost for employees with fewer years of service at age 60 was determined on a sliding percentage from 50% to 90%. Tier II coverage did not cease upon reaching age 65. As of September 30, 2008, the Tier I benefit was eliminated. A State retiree must be 59 and have at least 20 years of service to qualify for a Tier II benefit. The change limits the State's payment to 80.0% of the cost of an individual plan. The retiree health benefit change saved the State approximately $4.3 million in FY2009, with additional savings occurring each year thereafter.

2008 Retiree Health Care Change

- Tier I benefit eliminated.
- Retiree must be age 59 with 20 years of service to receive Tier II benefit.
- Retiree to pay 20.0% of the health plan cost.
- State savings: **$4.3 million**

STATUS OF RHODE ISLAND STATE PENSION SYSTEMS

Total actuarial value of the four plans is $7,948.4 million, while the total Unfunded Actuarial Accrued Liability (UAAL) is $4,907.6 million. The ERSRI plan for State employees and teachers is the largest plan administered by the State and is the least funded of the four plans, with a funding ratio of 58.5%.

Status of RI State Pension Systems
($ in millions)

Pension System	Assets	Unfunded Liability	Funded Ratio
ERSRI*	$6,655.0	$4,728.2	58.5%
MERS**	1,196.4	159.3	88.3%
State Police	60.2	15.2	79.8%
Judiciary	36.8	4.9	88.3%

* Includes state employees and teachers
** MERS reflects average of all plans

KEY NATIONAL PENSION FINDINGS

- Nationally, state pension system's were 84.0% funded (FY2008).
- Experts advise an 80.0% funding ratio for pension systems.

Source: Pew Center on the States, The Trillion Dollar GAP, Underfunded State Retirement Systems and the Roads to Reform.

Prepared October 12, 2010 for the Senate Committee on Finance, State of Rhode Island by Robert C. Bromley. Please direct any questions to *rbromley@rilin.state.ri.us*.